

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LAUREL COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Laurel County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$40,560 from the prior year, resulting in excess fees of \$9,021 as of December 31, 2008. Revenues increased by \$140,236 from the prior year and expenditures increased by \$180,796.

Debt Obligations:

Capital lease principal agreements totaled \$26,474 as of December 31, 2008. Future principal and interest payments of \$26,533 are needed to meet these obligations.

Deposits:

The Sheriff's deposits as of November 12, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$3,905,182

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
The Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Laurel County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2009 on our consideration of the Laurel County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Lawrence Kuhl, Laurel County Judge/Executive
The Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Laurel County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 20, 2009

LAUREL COUNTY
FRED YADEN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Grants:

High Intensity Drug Trafficking Area (HIDTA)	\$ 70,131	
Unlawful Narcotics, Investigation, and Treatment		
Education (UNITE)	126,320	
Highway Safety Grant	41,770	
U. S. Forestry Contract	13,586	
Organized Crime Drug Enforcement Task Force (OCDETF)	8,438	
U. S. Army Corps of Engineers	3,000	
Marijuana Eradication Grant	1,099	
		\$ 264,344

State - Kentucky Law Enforcement Foundation Program Fund	97,061
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State Fees For Services:

Finance and Administration Cabinet	65,249	
Cabinet For Human Resources	280	
Sheriff's Security Service	67,513	
		133,042

Circuit Court Clerk:

Fines and Fees Collected	3,511	
Court Ordered Payments	2,671	
		6,182

Fiscal Court:

Sheriff's Support	515,702	
Juvenile Transports	19,176	
Surplus Property Sales	3,300	
Election Commissioner	1,875	
Miscellaneous	4,552	
		544,605

County Clerk - Delinquent Taxes	11,434
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Commission On Taxes Collected:

Tax Commissions	624,957	
Transient Tax Commissions	17,859	
Telecommunication Commissions	9,613	
		652,429

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 FRED YADEN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Revenues (Continued):

Fees Collected For Services:

Auto Inspections	\$	25,648	
Accident and Police Reports		5,010	
Serving Papers		152,202	
Carrying Concealed Deadly Weapon Permits		<u>7,245</u>	\$ 190,105

Other:

Add-on Fees		137,605	
Sheriff's Fees		1,900	
Miscellaneous		10,778	
Sale of Surplus Property		14,360	
Interest Earned on Tax Collections		<u>2,588</u>	167,231

Interest Earned 504

Borrowed Money:

State Advancement		<u>380,000</u>
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Total Revenues 2,446,937

Expenditures

Operating Expenditures:

Personnel Services-		
Deputies' Salaries	1,050,472	
Part-Time Salaries	68,913	
Other Salaries	142,097	
Overtime	57,418	
Employee Benefits-		
Employer's Share Social Security	93,862	
Employer's Share Hazardous Duty Retirement	56,089	
Employer Paid Health Insurance	259,555	
Unemployment Benefit	17,106	
Contracted Services-		
Advertising	1,738	
Vehicle Maintenance and Repairs	12,765	
Copier	1,147	
Accounting Fees	2,294	

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 FRED YADEN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Materials and Supplies-

Office Materials and Supplies	\$	6,295	
Uniforms		5,351	
Gasoline		94,091	
Miscellaneous		7,701	
Equipment Purchases		12,613	\$ 1,889,507

Other Charges-

Dues		1,242	
Postage		20,419	
Bond		1,412	
Communications		26,882	
Computer & Software		6,460	56,415

Debt Service:

State Advancement	380,000	
Vehicle Lease	26,553	406,553

Total Expenditures		2,352,475
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Net Revenues		94,462
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Less: Statutory Maximum		82,832
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Excess Fees		11,630
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Less: Training Incentive Benefit		2,609
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Excess Fees Due County for 2008	\$	9,021
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The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAUREL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2008
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Laurel County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Laurel County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 12, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$3,905,182

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Drug Seizure Account

As of December 31, 2007, the Sheriff had a balance of \$69,971 in the Drug Seizure Account. During 2008, the Sheriff deposited \$5,013 of seized monies in the Drug Seizure Account and the account earned interest totaling \$330. The Sheriff disbursed \$33,526 in accordance with court orders, leaving a balance of \$41,788 as of December 31, 2008. Since these monies are being held by the Sheriff pending court adjudication, they are not included as part of excess fees.

Note 5. Undercover Drug And Alcohol Account

As of December 31, 2007, the Sheriff had a balance of \$11,030 in the Undercover Drug and Alcohol Account. Of the \$11,030 unexpended balance, \$2,194 was cash on hand held by the Sheriff to be used in investigative drug cases. During 2008, the Sheriff received \$1,297 which represented the Laurel County Sheriff's Office equitable sharing of seized assets, \$150 of reimbursements due from the former administration, and \$3,000 in donations received from Wal-Mart. The account earned interest totaling \$120. The Sheriff expended \$9,100, leaving a balance of \$6,497 as of December 31, 2008. Of the unexpended balance, \$2,008 is cash on hand held by the Sheriff to be used in investigative drug cases. These funds are to be used to enhance law enforcement activities and not to supplant the Sheriff's normal operating budget; therefore, they are not included as a part of excess fees.

Note 6. Court Ordered Forfeitures

During 2008, the Sheriff deposited funds totaling \$27,200 in the court ordered forfeiture account. The account earned interest totaling \$12. The Sheriff properly expended \$21,530 during calendar year 2008, leaving an unexpended balance of \$5,682 as of December 31, 2008. The use of these monies is determined by the court order granting forfeiture funds to the Sheriff's office; therefore, they are not included as a part of excess fees.

Note 7. Federal Seizure Account

As of December 31, 2007, the Sheriff had a balance of \$164,981 in the Federal Seizure Account. During 2008, the Sheriff received \$336,923 from federal agencies for the Laurel County Sheriff's share of assets seized as a result of joint investigations with other local, state, and federal agencies. The account earned interest totaling \$1,812. The Sheriff expended \$121,288 during the year, leaving a balance of \$382,428 as of December 31, 2008. These funds are used to enhance law enforcement activities and not to supplant the Sheriff's normal operating budget; therefore, they are not included as a part of excess fees.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 8. Transient Room Tax Account

In September 1979, the Laurel County Fiscal Court passed an ordinance establishing the London-Laurel County Tourist and Convention Commission and levying a 3% transient room tax. In the ordinance, the Laurel County Sheriff was designated as the collector of the tax. During 2008, the Sheriff collected \$420,290 of transient room tax receipts and the account earned net interest of \$32. In accordance with the ordinance, the Sheriff disbursed \$402,363 to the Laurel County Fiscal Court, who in turn remitted the tax to the London-Laurel County Tourist and Convention Commission. The Sheriff retained \$17,862 as his collection fee and used these fees for the operation of the Sheriff's office. As of December 31, 2008, the remaining balance due the Fiscal Court to be remitted to the London-Laurel County Tourist and Convention Commission is \$97.

Note 9. Leases

- A. On February 27, 2004, the Laurel County Fiscal Court entered into a 5-year leasing agreement with Farmers Bank & Capital Trust Co., with payments being made to Leasing One Corporation, for the purchase of five Sheriff's cruisers and equipment. Historically, the Sheriff's office has made the payments for this lease; however, the Fiscal Court paid the payment due during 2008. Payments are due annually by February 15. The total remaining principal balance of the agreement was \$26,474 as of December 31, 2008.
- B. On February 16, 2007, the Sheriff's office entered into a lease agreement with Great American Leasing Corporation for a copier. The agreement requires a monthly payment of 96 for 36 months to be completed in February 2010. The total balance of the agreement was \$1,300 as of December 31, 2008.

Note 10. Lease Agreement With The Laurel County Board Of Education

On August 9, 1938, the Laurel County Fiscal Court and the City of London entered into a contract that stated the Laurel County Board of Education (Board), while not a party to the contract, was to occupy the third floor of a county-owned building. In 1996, the Board renovated the third floor at a cost of \$148,600. The Board subsequently recouped \$43,200 of the renovation costs through rental income from the Kentucky Department of Education.

In 2002, at the Board's request, the Kentucky Department of Education left the building so that the Board could rent their portion of the building to the Sheriff's office. On January 14, 2002, the former Sheriff, on behalf of the Laurel County Sheriff's Office, and the Board entered into a lease agreement allowing the Sheriff's Office to occupy the third floor of the building for a sum of \$14,400 per year beginning on July 1, 2002 and ending on June 30, 2003, renewable on June 30th, unless either party was notified otherwise. While this agreement does not specify as such, auditors have been informed through conversations with Board officials, the County Judge/Executive, the County Attorney, the former Sheriff, and the current Sheriff, that the Board will charge the Laurel County Sheriff's office rent until the Board has recouped the balance of \$105,400 of renovation costs incurred by the Board.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 10. Lease Agreement With The Laurel County Board Of Education (Continued)

Despite the existence of the written lease agreement between the Board and Sheriff's office, there is an unresolved issue in whether the Board had a legal ownership interest in the third floor space currently occupied by the Sheriff's office and was therefore able to enter into a lease with the Sheriff's Office. In consideration of this unresolved issue, the Sheriff did not make rent payments to the Board during calendar year 2008. The Board, however, withheld \$14,400 from the Sheriff's October 2008 tax commissions for rent for July 1, 2007 through June 30, 2008. Auditors determined on the Sheriff's Settlement - 2007 Taxes that commissions should not have been reduced for the rent payments and a refund is due the Sheriff for overpayment of 2007 taxes. In our review of significant events occurring subsequent to December 31, 2008, auditors noted this issue remains unresolved; therefore, the Sheriff's Settlement - 2008 Taxes will likely also be influenced. If resolution of this issue were to conclude that the Sheriff should remit rental payments from the fee account, there would be an outstanding balance of \$40,600 as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
The Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Laurel County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated October 20, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Laurel County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

October 20, 2009

